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Educating career counselors and other practitioners in the career development field on at least the basics of financial planning concepts will enable them to provide clients with a more comprehensive approach to career decisions. A client with an understanding of financial planning basics will be better prepared as an informed, engaged, and motivated participant in career exploration. Ultimately, a client may be able to select a lower paying, but more highly rewarding career and still meet long-term financial goals. The purpose of this chapter is to review some basic areas of financial planning that will touch the surface of financial planning concepts and terminology and provide enough information for the career development practitioner to consider financial planning as part of the career development process. (GCP)

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Understanding the Financial Bottom Line: Career Decisions and Money

by

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Understanding the Financial Bottom Line: Career Decisions and Money

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Introduction

Educating career counselors and other practitioners in the career development field on at least the basics of financial planning concepts will enable them to provide clients with a more comprehensive approach to career decisions. A client with an understanding of financial planning basics will be better prepared as an informed, engaged, and motivated participant in career exploration. Ultimately, a client may be able to select a lower paying, but more highly rewarding career and still meet long-term financial goals.

Purpose

The purpose of this paper is to review some basic areas of financial planning that will touch the surface of financial planning concepts and terminology and provide enough information for the career development practitioner to consider financial planning as a part of the career development process.

Financial planning is a critical, but often-overlooked additional component to the process of career counseling and career development. With the ongoing discussions of a social security crisis, the end of many employer sponsored plans and the increasing costs and complexity of work benefits, it is essential that financial planning becomes one of the essential building blocks in career planning. The client must have a basic understanding of how to use the resources provided through employment including benefits and wages.

The National Partnership for Women & Families, a Washington D.C. based non-profit organization, informs us "more than half of young workers have a job without health benefits." We should be vigilant to these types of issues. It is often hard enough to help clients with skills identification, keep them focused, or give them the motivation to explore. However, career practitioners must become knowledgeable about the basics of benefit packages and financial planning so that they can better prepare their clients.

An individual seeks employment for a myriad of reasons related to self-concept, identity, self-worth, aspiration, and even competition. However, there is one fundamental item that separates a career from a leisure activity or hobby or vocation: there is a paycheck attached to it. Thus, the financial aspects of a career must be addressed within the context of career counseling. Most practitioners adopt an eclectic approach to career counseling borrowed from Super, Holland, Tiederman and so on. Regardless of the theoretical framework applied, or the portions of those theories used, most practitioners would agree that the cornerstones of career development are

built on a foundation of personality, skills, aptitudes, interests, and values. Clearly these time-tested building blocks are fundamental to a professional approach to career counseling. Yet, there are areas that are tangential to career development (e.g., spirituality and careers, work-life balance, etc.) that are brought to light with different emphases depending upon the philosophical approach of the practitioner. The interplay between career planning and financial planning is relevant, necessary, and critical.

Consider the client who highly values financial gain. Has that client clearly defined what that means? Are they foreclosing on career options without a clear understanding? What about the client who says it just doesn't matter how much or how little they earn; all they want is to simply be happy? That is a noble goal and as practitioners we can be quick to support it. However, are we really doing the client justice if we support it without knowledge of financial planning? How will the client be doing 10 years from now if they are working with no financial foundation – without a solid retirement plan, or no disability insurance, or without health insurance? Will the client be happy then?

As career practitioners we should not aim to take the place of a professional financial planner or knowledgeable employer benefits specialist, but we should understand the basics in order to lead clients to avail themselves of the services of these experts.

Or what about a client that presents with job dissatisfaction and is looking for another job? The client shares that the length of time at her current position is 4.5 years. We will rejoice if we help that person discover a new path and locate a new position. However, we must remember to consider the financial implications. If that client was about to vest in her retirement plan in the next few weeks or months then it would usually be best if she stayed with her current employer until she vested. Otherwise, she could lose her 5 years of accrued retirement benefits.

Discussion

Clients should not be trained as experts in finance, nor do they even need to learn how to read a NYSE ticker tape or how to trade in commodities and futures contracts. Rather, they simply need to learn the ways to use their money in a manner that enables them to attain their life goals. When a client comes to understand the building blocks, new opportunities will unfold. For example, a client can appropriately weigh options where financial security is an issue. They can empirically estimate the trade-off of working at one career for longer, presumably the area that is their passion, versus working in a less desired, but assumed to be more financially rewarding area.

With financial planning, a client can learn how to evaluate career choices in light of quality of life *with less* consideration of money. They can be shown specific ways of attaining their financial goals and security without the necessity of a big-money career.

Fundamentals Of The Program

A strong financial plan is built upon 4 blocks:

1) Cash Reserves – this consists of the liquid cash available for emergencies or unforeseen opportunities. This cash is often held in a passbook savings account, money market account, certificate of deposit, or similar instrument. It is often recommended that 3 to 6 months of net earnings be held with this level of liquidity.

2) Risk Management – this block consists of many types of insurance. Examples include health, disability, homeowners, renters, life, car, liability, vision, and dental. The National Partnership for Women & Families states that "12 million young adults live one step away from a medical bill bigger than any student loan." Regardless of the kind of insurance, purchasing the correct insurance and in the correct amounts for the best price can be one of the most important ways to save money and save one's future. One past graduate, who was working as an intern without an employer-sponsored health insurance policy, was diagnosed with cancer and had over $50,000 of medical expenses. He recovered from his illness, and fortunately he had the foresight to purchase his own health insurance policy prior to his diagnosis. His financial future was left without the weight of these bills.

3) Fixed Income Assets – these include investments in corporate, government, and municipal bonds.

4) Equity Investments – these include stocks, stock mutual funds, and real estate.

Explanation Of The Highlights Of Financial Building Blocks

The list of potential employment based benefits is a lengthy one. These benefits may include: a signing bonus, moving costs, tuition reimbursement, pensions (defined-benefit plans) with a myriad of vesting arrangements (vesting is how long an individual needs to work for an employer before they can receive any retirement benefit), vacation, sick leave, jury duty service, stock options, profit sharing, retirement plans (defined-contribution plans) 401(k), 403(b), 457, SEP-IRA, IRA, SIMPLE IRA, deferred compensation, cafeteria plans, dental/medical/vision insurances, life/accidental death insurances, car allowances and others.

Let us look at some employer-based benefits in greater detail:

A ***cafeteria plan*** is a benefits plan that allows an employee to choose among several benefits, such as health care, life insurance, vacation and disability insurance, etc. In some plans the credits can be redeemed for cash.

There are various types of ***life insurance*** including whole life and term insurance policies. The most typical type of life insurance obtained through work is term. Term insurance is 'pure insurance' it pays a face value amount for a set premium. Whole life insurance accumulates dividends that are reinvested to create a cash value in the policy. Whole life policies while sometimes appropriate carry heavy commissions and have large expenses. Term insurance through an employer is usually offered at a group rate and can usually be purchased as a multiple of an individual's salary. Some employers may offer some basic level of term insurance at no cost to the employee.

Disability insurance pays a percentage of monthly pay if an employee cannot work due to disability. This type of coverage is important because when an individual is disabled not only does income cease but also bills continue to mount. Coverage is available for long-term and short-term disability. A waiting period until coverage begins varies from 7 to 180 days and with that varies the cost of the coverage. A younger individual is several times more likely to become disabled for a portion of their career than to die.

Health Care Insurance comes in many shapes and sizes, but the two main types are the PPO (Preferred Provider Option) and the HMO (Health Maintenance Option). Through a PPO, the subscriber is able to select a general physician or a specialist from a list of providers (can be a very extensive list depending upon the insurance provider). Through an HMO, a subscriber generally selects or is assigned a primary care physician who then can make referrals to specialists. In general, HMO coverage is less expensive, but offers less choice. It is important to review annual out-of-pocket expenses including deductibles, prescription drug coverage, and so forth. The government provides by law that an employee who terminates employment can still opt to be covered for health insurance for up to 18 months by paying for his/her own premium in addition to a slight administrative fee. If the covered individual becomes ill during this time, the period of coverage can be extended to 29 months.

Dental care plans provide basic preventative and dental coverage, with limited coverage of orthodontia and limited annual coverage overall. They come in different types including HMO and PPO. The dental HMO and PPO work in a similar manner as they do with health insurance. ***Vision coverage*** provides payment for eye exams, frames, lenses, and contacts. Generally, these policies do not provide coverage for laser eye surgery. They may also be available either as a PPO or an HMO.

Flexible Spending Accounts allow an employee to place *before* tax dollars into an account to be used for medical expenses or for child or elder care. This is an often overlooked, but very valuable benefit if used correctly. An employee has to estimate the amount of dollars that will be used in the following year. If the employee estimates incorrectly, those dollars that are left over at the end of the year revert to the employer. However, the flex plan is a tremendous benefit that can save substantial money. Here is an example: if an employee has $5,000 of daycare expense, she (if in a top tax bracket) would have to gross nearly $8,000 to net the $5,000 to pay for daycare. However, if the employee places $5,000 into the flex account to be used for daycare she only has to use $5,000 of her gross dollars and not $8000. That is a substantial savings.

Educational Assistance Programs are designed to provide an employee with all or part of the cost of additional schooling. Up to certain limits these dollars are not included in the employees taxable income.

Legal coverage plans provide basic legal services such as tenant, wills, and a very limited number of hours for consultation.

Employee Assistance Programs offer coverage for mental health and substance abuse recovery assistance.

Retirement Savings

If a counselor is working with a young client, especially under age 30, the importance of teaching that client about retirement savings is magnified immensely. For example, a 25 year-old earning $30,000 a year who sets aside 8% of her pay before taxes and has an employer who matches 50 cents on the dollar can build a substantial retirement account. If her investments earn 10% a year...even if she never gets a raise…it would grow to $1.6 million by age 65, based on annual compounding. Even mid-career clients can benefit from such a discussion. Let's take a look at the example of Lucinda and Michael. Let's say that Lucinda, age 36, begins investing $4,000 per year and does so for 20 years, thereby investing a total of $80,000. At a 10% return her account value at age 65 would be $653,649. Michael, age 46, begins investing $4,000 per year

and does so for 20 years thereby investing a total of $80,000. At a 10% return his account value at age 65 would be $252,010 - a substantially smaller nest egg than Lucinda. An investment portfolio's growth is driven by how much we save, how long we invest, the return we earn, and how much of the return we surrender to investment costs and taxes.

There are many different types of retirement plans. Learning the details of each is not critical for the career counselor, however, knowing that there are many different types and a few of the basics is important. Here is a review of a few types: The ***defined-benefit plan*** pays a set monthly benefit to a retiree based on the retiree's age, tenure and former wages. The Pension Guaranty Corporation in the event of plan insolvency backs these plans. A defined-benefit plan is best suited to an employee who plans to work for one employer for a long period of time, usually more than 10 or 15 years and it is usually not portable. While this used to be a popular benefit, not as many employers offer this type of plan any longer. With this type of plan the employer carries the burden to make sure that there will be enough funding to payout the promised defined benefit. Thus, the ***defined-contribution plan*** became popular and is commonly used today. With a defined-contribution plan the benefits are paid based on the amount invested and how well it was invested. The employee directs the investments, often with no or little guidance from the employer. These plans are not guaranteed. These plans have different names, each with slightly different provisions, examples include: 401(k), 403(b), 457, SEP-IRA, SIMPLE-IRA, and so forth. Clients should be encouraged to participate in these types of plans. Often employers will match contributions up to a certain amount, therefore, not contributing will cost an employee free money from the employer.

There are certain questions that pertain to retirement accounts that should be reviewed, particularly the following: What is the waiting period before the employee can join the plan? How much salary can be contributed? How much will the employer match and what is the maximum percentage the employer will match? How many investment options are available? Can the employee borrow from the plan? Are hardship withdrawals permitted? When is the employee vested? In other words, when can the employee take the amount contributed in the plan with him if he is changing jobs?

It is essential that clients understand the importance of rolling assets over from one employer to another or from one employer to an individual retirement account (IRA). It is common for individuals to change careers and certainly to change jobs. Individuals tend to change jobs even more frequently in the early days of their career - exactly the most critical time for building a solid retirement plan. Because amounts accumulated after only a few years on the job appear small, individuals are more apt to cash out and use the money for a car or for a new wardrobe. This is unfortunate because these 'small' account values can be rolled over and has the potential to accumulate to a large sum. Here is an example: consider a client who has a combined federal and state tax rate of 34% and she has $10,000 at the time of a job change. If she withdraws the money instead of rolling it over she would lose $3,400 to taxes and $1,250 (10% federal penalty + 2.5% state penalty - if in California) thereby having only $5,350 left to cash out. Clearly not only is there a substantial long-term loss, but there is an immediate loss as well.

Now that employees are for the most part left to their own devices to decide how to save and prepare for retirement, it also important that a client learns the basics of asset allocation. Asset allocation is the process of determining how much to invest in different types of investments. Asset allocation is when a client creates a balanced portfolio, a portfolio that will

stand the test of time and produce the results necessary to sustain a potentially long-term retirement.

Summary

Helping clients get their financial house in order can include inviting speakers to discuss these topics and a handout that outlines the important steps. The handout can include the recommendations that they set up an emergency fund, invest more now, be systematic by paying investments first, encourage them to educate themselves on investing, hire an expert, reassess investments, figure their net worth, review their credit report, cut debts, watch credit card debt, estimate their pension, fund their retirement plans to the maximum, review social security benefits, watch vesting at work, check insurance coverage and get disability insurance.
The ultimate career security is financial security. It leads to better career choices and greater options. It allows clients to build a 'career transition fund' that can be used at a time of layoff or to seek better career opportunities.

By adding the financial component to the career development process, the career development practitioner is completing the picture of helping a client make choices and decisions that will build a foundation for more secure career decision-making. That is, decision-making that ultimately becomes free from financial constraints and more open to interests, skills, values, and all of the things we hope a client will strive for when they select a career.

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